



CIO OFFICE MORNING MARKET WRAP – Tuesday March 29, 2022. ALSO AVAILABLE ON ALEXA

Following yesterdays' positive close for the U.S. and European equity markets, Asian markets are trading up this morning. Except for U.S. equities which have shown gains the last 3 trading days with the S&P 500 just 4% below where it started the year, other markets continue to have mixed days. Yesterday while India closed marginally up Hong Kong and Japan traded down. UAE and KSA markets continue to add to strong year to date performance. Gold is a bit lower this morning at \$1926 while the 10 year US Treasury yield is steady at 2.47%. Shorter dated maturities however are still trending higher with the 2 and 5 year yields rising sharply, indicative of expectations of slowing economic growth. Global equities are -5% year to date with fixed income i.e. government bonds, high yield and IG bonds a little lower. Our positioning of recently adding to equities has worked well, though we expect continued volatility with a

hawkish Fed, ongoing geopolitical tension and China's zero COVID policy. We currently have a slight overweight to equities (higher for the US) and are underweight fixed income. We stay with our strategy of being reactive this year as high inflation, rising rates and slowing growth are serious headwinds for markets. The rise in commodity prices along with the record monetary/fiscal stimulus which created strong demand for consumer goods has led to sustainably higher inflation. German producer price inflation surged 25.9% y/y in Feb, the highest since Dec 1948.

Higher rates implies lower valuation multiples, while lower growth and rising costs impact margins and earnings. Whilst earning downgrades are rife across the board we see larger downgrades to European corporate earnings. Besides Russia market share European companies are also affected by any China slowdown as many large automakers and food companies have considerable revenue generation from China.

Boosting risk assets recently are hopes on resolution of the Russia Ukraine conflict as Mr. Zelensky, the Ukrainian president said they are ready to discuss Russian demands such as pledging to remain neutral and abandon the drive to join Nato if Russia withdrew its troops. Also helping markets are Fed hike expectations now starting to be priced in, and Chinese policy makers pledge to support markets and economic growth. Yesterday saw a respite in commodity prices. Brent oil is trading down at \$111/ barrel, following a rally this quarter which had oil and nickel up close to 50%, natural gas prices up 70% and palladium and fertilizers up 20%. Commodity prices were on course for their best year since 1915 after two years of pandemic lockdowns and the Russia Ukraine conflict interrupted supply chains. Oil markets have swung violently over the past week, with intraday moves of 5% with supply from Russia constrained, expectations of slowing demand from China in a new wave of COVID lockdowns and reports from Saudi Arabia of an oil storage facility harmed. China is the world's largest oil importer. Whilst the focus has been on rising commodity prices the food chain is also affected with wheat, sunflower oil and fertilizer shortages as are industrial metal supplies affected such as palladium. This has led to talk of deglobalization and localization. OPEC and non-OPEC ministerial meeting to discuss production targets is on Thursday. The UAE's energy minister has reaffirmed the country's commitment to the OPEC+ production quotas. Speaking at the Atlantic Council Global Energy Forum in Dubai, he said that the producers' bloc should stay out of politics and reiterated that 'Russia is an important member', whose continued participation is vital for oil market stability.

US President Biden in his budget proposal for fiscal 2023 included a new minimum wealth tax on billionaires, which would go towards funding spending commitments on climate and green energy. There was also a 4% increase in defence spending earmarked. On the macro front US wholesale inventories expanded 2.1% m/m in February, compared to 1.1% in January. This beat consensus projections of a 1.0% gain. On moving market news Tesla shares rose as it plans to seek shareholder approval for a stock split, the second in 2 years with the tech sector overall seeing an up day. Both Apple and Tesla production have been impacted by the China lockdown but shares continue to do well on longer term growth prospects. Some key events to watch this week: include Fed Presidents speaking through the week, U.S. GDP, China manufacturing, non-manufacturing PMIs Thursday and U.S. jobs report, Friday.

Stay safe.

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